WSDOT Market Analysis

June, 2007

This market analysis is based on a review of published information including the following sources: American Road and Transportation Builders Association (ARTBA); Associated General Contractors (AGC); Energy Information Administration (EIA), Engineering News Record (ENR); The Prince George Citizen and The Salt Lake Tribune

- **Asphalt** prices are beginning to moderate. Prices may continue rising, but not at the levels reached in 2006. Supply issues may affect local prices in some areas of the country.

  "The price of paving asphalt has experienced some wild swings during the first half of the year. Prices collapsed during the first two months of the year before posting a spring rebound (see chart below). But in May and June, the rebound in asphalt prices began to falter, with prices declining nearly 1% during the past two months. This compares to a 15% increase during the same two months of 2006. The net result was a dramatic decline in the year-to-year price increase, which fell from 22% last April to 5% in June." ENR, "Construction Economics," June 4, 2007.

  "Many oil refineries are away from selling bitumen. In recent years many have invested in specialized equipment that allows them to break apart the long petrochemical molecular chains found in asphalt oil into smaller pieces so it, too, can be refined into more valuable gasoline and diesel fuel. Additional research and development efforts remain under way to find still better ways to wring even more gasoline from each barrel of oil." "Asphalt prices pave way for higher costs," The Salt Lake Tribune, May 19, 2007 - Steven Oberbeck.

- **Concrete** prices traditionally increase during the spring and summer. This year, cement prices have increased each month during the first quarter of 2007. Prices are still rising, though at a slower rate than in 2006 with monthly increases in the 0.1 – 0.2 percent range. Similar increases will likely continue.

  "Portland cement prices rose 0.2% this month to climb 6.5% above a year ago. Prices for crushed stone used for concrete increased 0.4% and are 11% above 2006." ENR, "Construction Economics," May 7, 2007.

- **Fuel** prices rose to an all-time high this quarter, far outpacing the price of crude oil. The increase in fuel prices was caused by a number of factors, including: crude oil prices, supply and demand, winter weather, refinery outages and declining imports. High demand and low refinery capacity resulting in lower supply accounted for most of the increase. Though prices are currently leveling off as refiners are working near capacity, they remain elevated over last year's prices for the same months. The price of crude oil has also increased in recent weeks. Prices will likely remain high throughout the summer. This year's hurricane season, which began June 1, is forecast to be more active than usual. Temporary supply issues can occur if hurricanes pass over the Outer Continental Shelf in the Gulf of Mexico.

"Continuing problems for refineries in the United States and abroad, combined with strong global gasoline demand, have raised our projected average summer gasoline price by 14 cents per gallon from our last Outlook. Retail regular grade motor gasoline prices are now projected to average $2.95 per gallon this summer compared with the $2.84 per gallon average of last summer, During the summer season, the average monthly gasoline pump price is projected to peak at $3.01 per gallon in May and again in August, compared with $2.98 per gallon last July." EIA, "Short-Term Energy Outlook," May 2007.

"Gasoline inventories are expected to remain below the lower end of the normal range throughout the summer, which will keep pressure on gasoline prices and likely result in higher margins and retail prices than those seen last summer." EIA, "Short-Term Energy Outlook," May 2007.

- **Lumber and plywood** prices will remain level or experience moderate price gains as supplies are cut to bring lumber supply in line with demand. Reports of mill shutdowns have been widespread throughout the quarter.

"Lumber prices have mirrored the downturn in residential construction. Through April of this year the housing market was down 16% from a year ago. In June, ENR's 20-city average price for the most commonly used species of 2 X 4 was down 11% from 2006's level. Both the housing market and lumber prices appear to have bottomed out. In April, the dollar value of new home construction rose 5%, checking a long decline in lumber prices which have remained flat for the last four months." ENR, "Construction Economics," June 18, 2007.

"Canfor Corp. is shutting down more than half of its wood operations in B.C. and Alberta during the summer, including three sawmills in the Prince George area. It's not clear how long each mill will be down, but Canfor said the shutdowns will cut lumber production by 66.2 million board feet, OSB production by 14 million square feet and plywood by 8.5 million square feet." Prince George Citizen, "Canfor Orders Mill Shutdowns," June 14, 2007 – Gordon Hoekstra.

- **Steel** prices began declining in the fourth quarter of 2006, but are heating up in 2007. Supply issues may keep structural steel prices rising throughout 2007.

"Last April's 1.4% average price increase for wide-flange, channel and I-beams held during May, with prices inching upward another 0.1% this month. The rebound was not enough to bring structural steel prices back to last October's peak but it was enough to keep prices 7% above May 2006's level." ENR, "Construction Economics," May 28, 2007.

"The fact that we have become a net exporter of certain grades of steel means that total supply is lower than it has been at any time since 2005. And today's construction demand is much stronger than it was back in 2005," says John Anton, steel analyst with the Washington, D.C.-based forecasting firm Global Insight. Prices for reinforcing bar rose $55 per ton in March and another $55 in April, bringing average prices to $606 per ton, says Anton. Structural steel prices rose from $649 per ton last January to $730 in May, he adds. "I think we have seen the spike in rebar but structurals have a dangerous upside," says Anton. He predicts that structural steel prices won't peak until the first quarter of next year." ENR, "Inflation is Set for a Strong Rebound," June 13, 2007.

- **Highway Materials & Construction** prices will likely keep rising, though price escalation for these materials should not experience the steep rises experienced in 2004 – 2006.

  "The PPI for construction materials and components climbed 0.6% in April and 3% over 12 months. Among BLS's five construction segments, the indexes for materials for highway and street construction climbed 2.3% for the month and 5% over 12 months; other heavy construction, 1.9% and 4.8%; nonresidential buildings, 1.2% and 3.3%; multi-unit residential, 0.8% and 3.5%; and single-unit residential, 0.6% and 2.7%. The highway and other heavy segments were affected most by steep rises in diesel, asphalt and steel costs, while building segments benefited from falling gypsum prices." AGC, "Data Digest," May 7, 2007.

  "The cost of highway and street construction materials grew five percent in April 2007 compared to the same month last year. During the same time period inflation, as measured by the consumer price index, was 2.6 percent. Material prices increased an average of 10.8 percent in 2006 compared to 2005." ARTBA, "Highway Construction Producer Prices," May 2007.

- **Labor** prices are expected to increase double the recent wage trend due to a tight labor market. Competition for skilled labor is forcing contractors to pay premiums to attract workers. Recent negotiations in Western Washington between the AGC and five unions resulted in annual wage and fringe increases in the 5% annual range for five trades.

  "The Associated General Contractors of Washington reached an historic agreement with five trade unions in May following some heated negotiations. The cement masons and

laborers settled for five-year pacts with increases of 5.5% in the first year, 5% in the second year and 5% in the third year with reopeners for wage negotiations in years four and five. Teamsters settled on a similar contract structure, but with a 5.5% increase in the second year. Carpenters and operating engineers agreed on increases of 6%, 5.5% and 5% for the first three years, respectively. Those increases mark a major jump in wages and fringes in the Seattle area, where annual hikes have been around 3.5% in the past, says Doug Peterson, director of labor at AGC of Washington. "We recognize that these are good times," he says. "We've never seen those kinds of rate increases before around here. It's the highest we've ever seen." ENR, "Hot Markets and Labor Shortages Give Unions Strong Negotiating Hand," June 13, 2007 – Bruce Buckley.